

Peter Mezei, *Copyright Exhaustion: Law and policy of the United States and the European Union*¹

Review by Daniel Opoku Acquah²

It is remarkably common these days to find on Amazon or similar online marketplaces, the sales of used books, CDs or DVDs alongside the original copies that are copyright protected. Usually the used products are sold at a cheaper price compared to the original copies. The buyer has the option to buy the used or original copy depending on his or her preferences and purchasing power. In return, the copy owners get something back for their earlier investment. The basis for this activity, the right to redistribute the original copy of the product, originates from the doctrine of exhaustion (first-sale doctrine in the US) in copyright law. Essentially what this doctrine means is that once copyright owners transfer ownership in copies of their works, their rights to control the future distribution of those copies is exhausted. The buyers are free to transfer the copies as they please. This ensures a balance of interests between owners of copyright and the owners of copies in which the copyrighted work is embodied.

Despite its social desirability, applying the same doctrine to digital copies can be challenging. With the rise of digital distribution via streaming, downloads and device-embedded content such as apps and e-books, and practically unlimited online media storage, digital delivery has quickly become the norm. Yet the shift to the digital marketplace gives rights holder's greater control over not only the pricing and availability of their works but also, over the uses consumers can make with their purchases. As Perzanowski and Hoofnagle point out, the terms of use and end user license agreements (EULAs) associated with digital media goods ensures that purchasers cannot lend media goods; they cannot give them away as gifts, and they certainly cannot resell them. To this end, the first sale doctrine is increasingly marginalized.

Professor Mezei's book, which addresses this contemporary challenge, is a valuable intervention and a timely book that offers a comprehensive examination of copyright exhaustion, including its historical development, theoretical framework, practical applications, and policy considerations. The strength of the book lies in the comparison of the substantive norms and case law on the question in the US and the EU – two jurisdictions whose copyright laws represent different traditions: the common law monistic system and the civil law dualistic system. While EU copyright law combines both traditions, the US copyright law embodies only the former. This comparison allows for a nuanced and systematic examination of how the courts and legislature on both sides of the Atlantic have responded to the issue of copyright exhaustion, and the struggles both institutions face in getting this doctrine right, especially, as it applies to copyright-protected digital works. The reader will quickly come to understand that the rules on exhaustion in both jurisdictions

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differ. They differ between software and other works, differ depending on transaction terms, differ as to whether reproduction is permissible to sell copies separate from storage media, and differ as to whether exhaustion applies internationally, to borrow Determann's words.

The book, among others, addresses a simple question: can digital data (files) sold via online platforms be lawfully resold by digital second-hand retailers and end-users, as is the case with physical copies? To answer this question, the book covers both analogue and digital applications and, in doing so, questions the rejection of exhaustion in the resale of digital subject matter such as sound recordings and audiovisual works. Mezei argues that the doctrine of exhaustion can, and should be expanded to the digital environment. Moreover, he in an ambitious fashion makes a compelling case that the three requirements proposed by scholars for the extension of the doctrine to the digital environment may be fulfilled during the resale of the digital data. These requirements are: (1) that copies sold by the rights holder and resold by the acquirers shall not compete; (2) the acquirer of the original copy shall not maintain exclusive control over the copy of the work; and (3) the quality of the copies shall deteriorate over time. While Mezei successfully argues these points out by, for example, citing the case of software for the third requirement (ageing), that argument cannot effectively apply to say e-books, something Mezei acknowledges. Thus, as difficult as these requirements may be to fulfil or justify, I would rather he focused on the weaknesses inherent in these proposals as justifying their fulfilment.

Mezei's intervention on the question is organized around four chapters. The first three chapters cover the analogue aspects of copyright exhaustion. The last chapter, which discusses the digital aspects of the question, also discusses the fulfilment criteria outlined above. Chapter 1 takes the reader through a journey about the theory of copyright exhaustion, exploring its origins at the state level, and how countries limit the operation of the doctrine, which is either, national, regional, or international depending upon whether a country predominantly exports or import cultural goods. This naturally leads to an elaboration of the concept of parallel imports, emphasizing how a particular regime of exhaustion affects its practice. To capture the broader picture, international treaties that deal with copyright exhaustion, such as the Trade-Related Aspects of Intellectual Property Rights (TRIPS) Agreement, the WIPO Copyright Treaty (WCT) and the WIPO Performances and Phonograms Treaty (WPPT), both commonly referred to as the WIPO Internet Treaties, are analyzed. Admittedly, the rather lukewarm, if not dubious approach of the TRIPS Agreement towards exhaustion and the seemingly compromised approaches taken by the WIPO Internet Treaties to the question leaves a bleak impression about the future of digital exhaustion – despite Mezei's aspiration.

Chapter 2 introduces the historical development of copyright exhaustion in the EU, and at the same time, discuss the built-in limitations of the doctrine, namely, the ban on parallel imports, as well as the resale right (*droit de suite*). Relying on scholarly literature on the subject, it characterizes the development of the doctrine into two phases: the era of the CJEU jurisprudence and the era of the directives (harmonization). The era of CJEU jurisprudence touches on the strong connection established between exhaustion and parallel imports by the

court as a way of managing the operation of intellectual property rights as a hindrance to the functioning of the internal market. In contrast to the ideals of the common market, the founding members of the EU (then EEC) decided that the EU shall have no competence to deal with intellectual property rights under the EEC Treaty. Intellectual property rights were thus perceived as a nationally defined restraint on internal trade and competition. It took the intervention of the CJEU – who will apply the free movement of goods (but not that of services) as a general barrier to the exercise of copyright. The jurisprudence of the CJEU ultimately served as the basis for subsequent EU-wide copyright legislation, chief among them, Directive 2001/29 (the InfoSoc Directive), which, however, did little to alleviate the challenges with digital exhaustion. Considering that this directive, among other things, implemented into the EU legal order the WCT, the European legislature may have envisaged not going beyond the scope of the WCT on exhaustion.

In a similar fashion, chapter 3 discusses the US first-sale doctrine. It, however, first points out the differences and similarities between the US legal system and its European counterpart on the question of exhaustion. Unlike the EU, where the TFEU indirectly allow for the regulation of intellectual property, the intellectual property clause in the US constitution gives Congress the power to regulate copyright, which applies directly and unilaterally across the whole of the US. Similar to the EU, exhaustion in the US is a judge-made principle. However, while the US judges introduced the doctrine in order to ensure the alienation of the good from its seller, the CJEU was mainly concerned with the objective of establishing the internal market. The US courts have been grappling with the question since 1885 while the CJEU first addressed the issue in 1971. Specific to the US, Mezei examines the first-sale-doctrine pre and post-1976. Here, Mezei clearly shows how several post-1976 court decisions represented a departure from the pre-1976 case law, and how the post-1976 case law further contributed to the proper application of the first-sale-doctrine. In particular, the controversy surrounding a phrase in USCA §109(a), namely, “lawfully made under this title” and the subsequent jurisprudence of the US Supreme Court on the matter, which led to the Court’s acceptance of the concept of international exhaustion in *Kirtsaeng*, is explored. In Europe, the CJEU has so far only permitted regional exhaustion. The chapter further elaborates on other copyright-related Acts such as the Record Rental Amendment Act, Computer Software Rental Amendment Act and the failed video rental bill.

The last chapter delves into the core argument of the book – the digital exhaustion quandary. This quandary challenges the preexisting set of economic rights, the freedom to provide services, the free movement of goods, as well as the traditional business models of the copyright industry. To illustrate how this works in practice, Mezei conducts a two-part analysis of the question. First, he analyzes the German, EU, US, and Dutch case law on the resale of computer programs, sound recordings, audio and e-books as well as audiovisual works. Second, he conducts further analysis of the latter cases using four factors, namely (a) the license versus sale dichotomy; (b) the clash of distribution versus making available to the public rights (c) the “new copy theory”, and related to that the migration of digital files, as well as the “forward-and-delete technologies”; and (d) the issue of special legislation (*lex specialis*) in copyright law and related to that the theory of functional equivalence. The

outcome is that the chapter (and this applies to the entire book) is, in a beautiful way, enriched with references to, and critical analysis of up-to-date case law on digital exhaustion in the EU and in the US, teasing out the broader themes and underlying policy tensions in a way that enhances one's understanding of the field.

Yet, it is Mezei's intervention on the theoretical approaches to the question – the traditional positivist approach and the constructive realist approach – that is interesting. The traditional positivist approach posits that the theory of exhaustion is not applicable in the digital environment, while the constructive realist approach advocates for the extension of the doctrine to the digital world. Proponents of the latter argue that digital exhaustion is crucial for the benefit of the digital economy and for the advancement of end-user rights. Mezei sympathizes with the latter approach. It is likely the average digital consumer may sympathize with this approach for all its practicality and convenience. However, what proponents of this theory fail to acknowledge is that, in the analogue world, countries have the benefit of limiting copyright exhaustion through the operation of either national, regional or international exhaustion. Most, if not all of the digital copyright transactions happen in the online world, a borderless environment where the exhaustion regimes mentioned above cannot function. Thus, focusing the argument sanguinely on the benefits to the end-user or digital economy could potentially underestimate the abuse of the system by the beneficiaries – the end-users, especially, as the doctrine is not bound by the three-step test. While the book provides some solid counterarguments about how to curb abuse by end-users, they seem contingent. On the other hand, it may also lead to the unnecessary utilization of technological protection measures by right holders or intermediaries, price hikes and exhaustion evasion tactics such as licenses that limit the use of content or moving services to the cloud.

Mezei concludes by advocating for international exhaustion and a balance in copyright exhaustion. Responsibility in this regard is shifted to the legislature and the judiciary, institutions who, according to Mezei, are the only missing elements on both sides of the Atlantic left to give their approval to digital exhaustion. The legislature, he argues, could, for instance, focus on developing a technology-neutral solution in order to ensure that the interest of all parties involved is respected. While advancing these arguments, Mezei also acknowledges the challenges by, for example, lamenting the failure of the EU Commission's recent proposal for a directive of the European Parliament and the Council on copyright in the Digital Single Market to, specifically, address the issue of digital exhaustion (COM(2016) 593 final). This is so despite indication in the 2015 Digital Single Market Strategy that better access for consumers and businesses to online goods and services across Europe requires the rapid removal of key differences between the online and offline worlds to break down barriers to cross-border online activity (COM(2015) 192 final).

Commentators have therefore wondered whether the CJEU (or the US courts) might be the right institutions best placed to determine whether exhaustion of the right of distribution should only (continue to) apply to the tangible support of a work, or instead, deem it outmoded. In the *UsedSoft* case, which had to do with the interpretation of the Software Directive, the CJEU appeared to suggest the latter approach but then fell short of extending the same principles to works protected under the InfoSoc Directive. In the US *ReDigi*

judgment, Judge Sullivan stated that whether the law should envisage a digital first sale doctrine is a matter for the legislative, rather than courts. It would appear that at the EU level, whether the law should – or rather should not – allow for digital exhaustion is due to remain for some time a matter for the judiciary alone, whereas in the US, it is a matter for the legislature. It is no wonder then that despite Mezei's passion and optimism for digital exhaustion, he ends on a rather pessimistic tone when he draws parallels between digital exhaustion and Hannibal, the Carthaginian commander who failed to advance to Rome due to lack of resources. He wonders if the same might not be the fate of the proponents of digital exhaustion.